

PUBLIC DISCLOSURE

December 22, 2010

**MORTGAGE LENDER COMMUNITY INVESTMENT
PERFORMANCE EVALUATION**

**HOMESTEAD FUNDING CORP.
MC3232**

**EIGHT AIRLINE DRIVE
ALBANY N.Y. 12205**

**DIVISION OF BANKS
1000 WASHINGTON STREET
BOSTON, MA 02118**

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this mortgage lender. The rating assigned to this mortgage lender does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this mortgage lender.</p>
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GENERAL INFORMATION

Massachusetts General Laws chapter 255E, section 8 and the Division of Banks' ("Division") regulation 209 CMR 54.00, Mortgage Lender Community Investment ("MLCI"), require the Division to use its authority when examining mortgage lenders subject to its supervision who have made 50 or more home mortgage loans in the last calendar year, to assess the mortgage lender's record of helping to meet the mortgage credit needs of the Commonwealth, including low- and moderate-income neighborhoods and individuals, consistent with the safe and sound operation of the mortgage lender. Upon conclusion of such examination, the Division must prepare a written evaluation of the mortgage lender's record of meeting the credit needs of the Commonwealth.

This document is an evaluation of the MLCI performance of **Homestead Funding Corp. ("Homestead")** prepared by the Division, the mortgage lender's supervisory agency, as of **December 22, 2010**.

SCOPE OF EXAMINATION

An evaluation was conducted using examination procedures, as defined by MLCI. A review of the Division's records, as well as the mortgage lender's public MLCI file, did not reveal any complaints.

The MLCI examination included a comprehensive review and analysis, as applicable, of Homestead's:

- (a) origination of loans and other efforts to assist low and moderate income residents, without distinction, to be able to acquire or to remain in affordable housing at rates and terms that are reasonable considering the lender's history with similarly situated borrowers, the availability of mortgage loan products suitable for such borrowers, and consistency with safe and sound business practices;
- (b) origination of loans that show an undue concentration and a systematic pattern of lending resulting in the loss of affordable housing units;
- (c) efforts working with delinquent residential mortgage customers to facilitate a resolution of the delinquency; and
- (d) other efforts, including public notice of the scheduling of examinations and the right of interested parties to submit written comments relative to any such examination to the Commissioner, as, in the judgment of the Commissioner, reasonably bear upon the extent to which a mortgage lender is complying with the requirements of fair lending laws and helping to meet the mortgage loan credit needs of communities in the Commonwealth.

MLCI examination procedures utilize two performance tests: the Lending Test and the Service Test. This evaluation considered Homestead's lending and community development activities for the period of January 2008 through December 2010. The data and applicable timeframes for the Lending Test and the Service Test are discussed below.

The Lending Test evaluates the mortgage lender's community investment performance pursuant to the following five criteria: geographic distribution of loans, lending to borrowers of different incomes, innovative and flexible lending practices, fair lending, and loss of affordable housing.

Home mortgage lending for 2008 and 2009 is presented in the geographic distribution, lending to borrowers of different incomes and the Minority Application Flow tables. Comparative analysis of the mortgage lender's lending performance for the year of 2009 is provided because it is the most recent year for which aggregate HMDA lending data is available. The aggregate lending data is used for comparison purposes within the evaluation and is a measure of loan demand. It includes lending information from all HMDA reporting lenders which originated loans in the Commonwealth of Massachusetts.

In addition to gathering and evaluating statistical information relative to a mortgage lender's loan volume, the MLCI examination also reflects an in depth review of the entity's mortgage lending using qualitative analysis, which includes, but is not limited to: an assessment of the suitability and sustainability of the mortgage lender's loan products by reviewing the lender's internally maintained records of delinquencies and defaults as well as information publicly available through the Federal Reserve Banks and through local Registries of Deeds and through other sources available to the examination team. The examination included inspection of individual loan files for review of compliance with consumer protection provisions and scrutiny of these files for the occurrence of disparate treatment based on a prohibited basis.

The Service Test evaluates the mortgage lender's record of helping to meet the mortgage credit needs by analyzing the availability and effectiveness of a mortgage lender's systems for delivering mortgage loan products, the extent and innovativeness of its community development services, and, if applicable, loss mitigation services to modify loans and/or efforts to keep delinquent home borrowers in their homes.

MORTGAGE LENDER'S MLCI RATING: This Mortgage Lender is rated "Satisfactory."

This "Satisfactory" rating is based upon:

- The geographic distribution of the lender's loans reflects a good dispersion in low- and moderate-income Census tracts as it is reflective of the distribution of owner-occupied housing in those Census tracts and exceeds the performance of the aggregate.
- The distribution of loans by borrower income reflects, given the demographics of Massachusetts, a good record of serving the credit needs of individuals of different income levels, including low- and moderate-income.
- Homestead offers flexible lending products.
- Fair lending policies and practices are considered reasonable.
- The lender has a limited number of Community Development Services.

PERFORMANCE CONTEXT

Description of Mortgage Lender

Homestead was incorporated in the state of New York in February 1994, and was granted a license by the Division in December 1997. Homestead's main office is located at Eight Airline Drive in Albany, New York. The lender has a Massachusetts branch office in North Chelmsford and is also licensed to do business in approximately 10 additional states in Eastern and Northeastern United States and the District of Columbia.

Homestead offers a variety of conforming as well as non-conforming residential mortgage loan products, and is an approved lender for the FNMA, FHLMC, GNMA, FHA, and VA. All originated mortgage loans are sold to secondary market with limited recourse and servicing rights released. Approved loans are funded through warehouse lines of credit. Homestead's business development relies primarily on referrals and repeat customers, with minimal advertising done.

Demographic Information

The MLCI regulation requires mortgage lenders to be evaluated on their performance within the Commonwealth of Massachusetts. Demographic data is provided below to offer contextual overviews of economic climate along with housing and population characteristics for the Commonwealth of Massachusetts.

DEMOGRAPHIC INFORMATION*						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	N/A
Geographies (Census Tracts)	1,361	8.4	21.7	46.1	23.4	0.4
Population by Geography	6,349,097	5.8	20.5	47.6	26.0	0.1
Owner-Occupied Housing by Geography	1,508,248	1.6	12.8	54.0	31.6	0.0
Family Distribution by Income Level	1,587,537	20.5	17.7	22.3	39.5	0.0
Distribution of Low and Moderate Income Families throughout AA Geographies	606,419	10.0	29.4	46.2	14.4	0.0
Median Family Income		\$65,318	Median Housing Value Unemployment Rate		\$209,519	
2009 HUD Adjusted Median Family Income		\$82,684				
Households Below Poverty Level		9.8%			8.4%**	

**Source: 2000 US Census*

***as of 9/10*

Based on 2000 Census data, the Commonwealth of Massachusetts has a total population of just over 6.3 million people and a total of 2.6 million housing units. Of the total housing units, 1.5 million or 57.5 percent are owner-occupied, 935,332 or 35.7 percent are rental-occupied, and 6.8 percent are vacant units.

There are 2.4 million households in the Commonwealth with a median household income of \$53,686 according to the 2000 Census. Over 40 percent of the households are classified as low- and moderate-income. In addition, 9.8 percent of the total number of households are living below the poverty level. Individuals in these categories may find it challenging to qualify for traditional mortgage loan products.

Households classified as "families" total slightly over 1.5 million. Of all family households, 20.5 percent are low income, 17.7 percent are moderate income, 22.3 percent are middle income, and 39.5 percent are upper income. The median family income according to the 2000 census was \$65,318. The Housing and Urban Development ("HUD") adjusted median family income is \$82,684. The adjusted median family income is updated yearly and takes into account inflation and other economic factors.

The Commonwealth of Massachusetts contains 1,361 Census tracts. Of these, 114 or 8.4 percent are low-income; 295 or 21.7 percent are moderate-income; 628 or 46.1 percent are middle-income; 319 or 23.4 percent are upper-income; and 5 or 0.4 percent are NA or have no income designation. The five Census tracts with no income designation are located in Bridgewater (a correctional facility), Boston (islands in Boston Harbor), Amherst (U MASS campus), Harvard (Fort Devens), and Grafton (Tufts Veterinary School). These Census tracts contain no housing units and will not be included in this evaluation since they provide no lending opportunities.

The median housing value for Massachusetts was \$209,519 according to the 2000 Census. However, recent figures from the Warren Group, publishers of the Banker and Tradesman, show the median price for a single-family increased to \$300,500 in 2008 and experienced a drop of 5.2 percent to \$285,000 in 2009. Fluctuating housing values have a direct effect on the types of financial products adequate for homeowners and property buyers.

The unemployment rate for the state of Massachusetts as of September 2010 was 8.4 percent, down from 9.0 percent in September 2009. This represents an increase from the end of 2008 when the unemployment rate stood at 6.4 percent. Employment rates would tend to affect a borrower's ability to remain current on mortgage loan obligations and also correlates to delinquency and default rates.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Homestead's Lending Test was rated an overall "High Satisfactory." The lending efforts are rated under the five performance criteria: Geographic Distribution, Borrower Characteristics, Innovative or Flexible Lending Practices, Fair Lending Policies and Procedures, and Loss of Affordable Housing. The following information details the data compiled and reviewed, as well as conclusions on the mortgage lending of Homestead.

I. Geographic Distribution

The geographic distribution of loans was reviewed to assess how well Homestead is addressing the credit needs throughout the Commonwealth of Massachusetts' low-, moderate-, middle-, and upper-income Census tracts.

The mortgage lender's geographic distribution of loans is above the distribution of owner occupied housing units and well above the performance of the aggregate distribution of loans for low- and moderate-income borrowers in the Commonwealth. Overall, Homestead's distribution of loans reflects a good distribution of loans in the Commonwealth.

The following table presents Homestead's HMDA reportable loans as well as the 2009 aggregate data (exclusive of Homestead). In addition, the table also reflects the percentage of owner-occupied housing units in each of the Census tract income categories.

<i>Distribution of HMDA Loans by Income Category of the Census Tract</i>								
<i>Census Tract Income Level</i>	<i>% Total Owner-Occupied Housing Units</i>	<i>Homestead Funding Corp. 2008</i>		<i>Aggregate Lending Data (% of #) 2009</i>	<i>Homestead Funding Corp. 2009</i>		<i>Homestead Funding Corp. Total</i>	
		<i>#</i>	<i>%</i>		<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
<i>Low</i>	1.6	12	11.3	1.6	15	10.0	27	10.5
<i>Moderate</i>	12.8	30	28.3	10.6	51	34.0	81	31.6
<i>Middle</i>	54.0	54	50.9	50.7	68	45.3	122	47.7
<i>Upper</i>	31.6	10	9.5	37.1	16	10.7	26	10.2
<i>Total</i>	100.0	106	100.0	100.0	150	100.0	256	100.0

Source: 2008 and 2009 HMDA Data and 2000 U.S. Census

Homestead's geographic distribution of loans for low- and moderate-income Census tracts was significantly above the aggregate percentage of lending for 2009. From 2008 to 2009, the percentage of loans in low-income tracts stayed relatively consistent, along with the number of loans originated. In moderate-income tracts, Homestead had an increase in both number of loans and percentage. Forty percent of Homestead's total loan volume was originated in low- and moderate-income tracts, for both 2008 and 2009. The total loan volume for 2010 remained consistent at 121 loans originated.

II. Borrower Characteristics

The distribution of loans by borrower income levels was reviewed to determine the extent to which the lender is addressing the credit needs of the Commonwealth's residents.

Homestead had a good level of originations to borrowers of different income levels based on the area's demographics and a comparison to aggregate lending data in Massachusetts.

The following table shows HMDA-reportable loans to low-, moderate-, middle- and upper-income borrowers in comparison to the aggregate and the percentage of total families within the Commonwealth in each respective income group.

Median Family Income Level	Distribution of HMDA Loans by Borrower Income							
	% of Families	Homestead Funding Corp. 2008		Aggregate Lending Data (% of #) 2009	Homestead Funding Corp. 2009		Homestead Funding Corp. Total	
		#	%		#	%	#	%
Low	20.5	17	16.0	5.1	30	20.0	47	18.4
Moderate	17.7	27	25.5	16.6	42	28.0	69	26.9
Middle	22.3	27	25.5	23.7	21	14.0	48	18.7
Upper	39.5	14	13.2	39.7	20	13.3	34	13.3
NA*	0	21	19.8	14.9	37	24.7	58	22.7
Total	100.0	106	100.0	100.0	150	100.0	256	100.0

*Source: 2008 & 2009 HMDA Data and 2000 U.S. Census *Income Not Available*

Homestead's lending to low- and moderate-income borrowers was significantly above the aggregate. Both the number of loans and percentage of loans to low- and moderate-income borrowers increased from 2008 to 2009. Homestead's overall loan volume increased by 29% from 2008 to 2009 with over 60% of those loans being originated to low and moderate-income borrowers. In addition, Homestead's percentages were in line with the percentage of low- and moderate-income families in Massachusetts. Additionally, it is noted that there was a relatively high percentage of loans for which income was not recorded. This could be attributable, in part, to certain FHA streamlined refinance products that do not require income verification.

III. Innovative or Flexible Lending Practices

Homestead offers flexible lending products to address the credit needs of low- and moderate-income individuals or geographies.

Homestead is a Direct Endorsed Lender for the Federal Housing Administration ("FHA") and the Veterans Administration ("VA"). FHA and VA products provide competitive interest rates, smaller downpayments for low- and moderate-income first time homebuyers and existing homeowners. In 2008, Homestead originated 63 FHA and VA loans totaling \$12.9 million in dollar volume. In 2009, Homestead originated 83 FHA and VA loans totaling \$17.2 million in dollar volume.

IV. Fair Lending

The Division examines a mortgage lender's fair lending policies and procedures pursuant to Regulatory Bulletin 1.3-103 and Regulatory Bulletin 5.3-101. The mortgage lender's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. The review included, but was not limited to, review of written policies and procedures, interviews with mortgage lender personnel, and individual file review. No evidence of disparate treatment was identified.

Homestead has established an adequate record relative to fair lending policies and practices.

Fair Lending is incorporated in Homestead's company-wide policy and procedures. Employees will not discriminate against loan applicants on the basis of race or color, national origin, religion or creed, sex, marital status, familial status, sexual orientation, handicap or disability, or age, or the fact that all or part of the applicant's income is derived from a public assistance program, or has in good faith exercised any right under the Consumer Credit Protection Act.

Homestead's lending policies and procedures are given to all employees. All employees are required to read Homestead's Fair Lending Policy as a part of new hire orientation. All loan originators must complete the required Nationwide Mortgage Licensing System's continuing education courses. In addition, Homestead has an established in-house training program. This training includes group training, periodic meetings and webinars that review compliance issues, including fair lending, changes in guidelines, and company policies, among other components.

MINORITY APPLICATION FLOW

During 2008 and 2009, Homestead received 340 HMDA-reportable loan applications from within the Commonwealth of Massachusetts. Of these applications, 44 or 12.9 percent were received from minority applicants, of which 31 or 70.5 percent resulted in originations. Homestead received 14 or 8.3 percent of HMDA-reportable applications from ethnic groups of Hispanic origin within its assessment area of which 7 or 50.0 percent were originated.

Refer to the following table for information on the mortgage lender's minority application flow as well as a comparison to aggregate lenders throughout the Commonwealth of Massachusetts. The comparison of this data assists in deriving reasonable expectations for the rate of applications the mortgage lender received from minority applicants.

MINORITY APPLICATION FLOW								
RACE	Homestead 2008		2009 Aggregate Data		Homestead 2009		Homestead Total	
	#	%	#	%	#	%	#	%
<i>American Indian/ Alaska Native</i>	0	0.0	731	0.2	2	1.1	2	0.6
<i>Asian</i>	11	7.2	20,076	4.1	26	13.8	37	10.9
<i>Black/ African American</i>	3	2.0	10,070	2.0	1	0.5	4	1.2
<i>Hawaiian/Pac Isl.</i>	0	0.0	555	0.1	1	0.5	1	0.2
<i>2 or more Minority</i>	0	0.0	230	0.1	0	0.0	0	0.0
<i>Joint Race (White/Minority)</i>	0	0.0	5,024	1.0	0	0.0	0	0.0
Total Minority	14	9.2	36,686	7.5	30	15.9	44	12.9
<i>White</i>	138	90.8	344,042	69.7	158	84.1	296	87.1
<i>Race Not Available</i>	0	0.0	112,633	22.8	0	0.0	0	0.0
Total	152	100.0	493,361	100.0	188	100.0	340	100.0
ETHNICITY								
<i>Hispanic or Latino</i>	4	2.6	11,477	2.3	6	3.2	10	2.9
<i>Not Hispanic or Latino</i>	145	95.4	364,391	73.9	181	96.3	326	95.9
<i>Joint (Hisp/Lat /Not Hisp/Lat)</i>	3	2.0	3,691	0.8	1	0.5	4	1.2
<i>Ethnicity Not Available</i>	0	0.00	113,802	23.0	0	0.0	0	0.0
Total	152	100.0	493,361	100.0	188	100.0	340	100.0

Source: 2000 U.S. Census Data

As shown in the chart above, Homestead's performance was significantly above the 2009 aggregate's performance for racial minority applicants. The mortgage lender's performance was also above the aggregate for applications from ethnic minorities in 2009. Homestead received 3.7 percent of its applications from ethnic minorities while the aggregate received 3.1 percent in 2009.

Overall, the mortgage lender's performance in this area is considered good.

V. *Loss of Affordable Housing*

This review concentrated on the suitability and sustainability of mortgage loans originated by Homestead by taking into account delinquency and default rates of the mortgage lender and those of the overall marketplace. Information provided by the lender was reviewed as were statistics available on delinquency and default rates for mortgage loans. Additionally, individual mortgage loans were tracked for their status through local Registries of Deeds and other available sources including public records of foreclosure filings.

An extensive review of information and documentation, from both internal and external sources as partially described above, did not reveal lending practices or products that showed an undue concentration or a systematic pattern of lending, including a pattern of early payment defaults, resulting in the loss of affordable housing units. Further, delinquency rates were found to be consistent with industry averages.

SERVICE TEST

The service test evaluates a mortgage lender's record of helping to meet the mortgage credit needs in the Commonwealth by analyzing both the availability and effectiveness of a mortgage lender's systems for delivering mortgage loan products; the extent and innovativeness of its community development services; and loss mitigation services to modify loans or otherwise keep delinquent home loan borrowers in their homes. Community development services must benefit the Commonwealth or a broader regional area that includes the Commonwealth.

Homestead's Service Test performance was determined to be "Needs to Improve" at this time.

Mortgage Lending Services

Homestead provides an effective delivery of mortgage lender services that are accessible to geographies and individuals of different income levels in the Commonwealth. Customers can apply to Homestead for a mortgage by mail, over the telephone, and in person at a branch office. Homestead's main office is located at Eight Airline Drive, Albany, NY. Homestead has one branch office within Massachusetts, located at 345 North Road, North Chelmsford, MA, a middle-income geography. Homestead opened a branch in Waterford, Connecticut during 2010 that is licensed to lend in Massachusetts. However, due to lack of Massachusetts licensed loan originators at this branch, no services were provided to any Massachusetts borrowers during the examination period.

Business development relies primarily on referrals and repeat customers. Homestead does minimal advertising in Massachusetts.

As Homestead does not routinely service mortgage loans, it would not work directly with delinquent borrowers. Therefore, this review would not include an evaluation of loan mitigation and modification efforts as the mortgage lender would not be accountable for such action. However, as described above, lending practices and products did not show an undue concentration or a systematic pattern of lending resulting in mortgage loans that were not sustainable.

Community Development Services

A community development service is a service that:

- (a) has as its primary purpose community development; and
- (b) is related to the provision of financial services, including technical services

The Commissioner evaluates community development services pursuant to the following criteria:

- (a) the extent to which the mortgage lender provides community development services; and
- (b) the innovativeness and responsiveness of community development services.

Despite the stated effort made by Homestead in the area of community development services, sufficient documentation was not available to provide consideration under this test.

Contributions

During the examination period, Homestead made one qualified donation, totaling \$500, to an organization that promotes education, health and human services for individuals in need, and economic developments throughout the Commonwealth of Massachusetts.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 255E, Section 8, and 209 CMR 54.00, the Mortgage Lender Community Investment (MLCI) regulation, requires all mortgage lenders to take the following actions within 30 business days of receipt of the MLCI evaluation of their mortgage lender:

- 1) Make its most current MLCI performance evaluation available to the public.
- 2) Provide a copy of its current evaluation to the public, upon request. The mortgage lender is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the mortgage lender's evaluation, as prepared by the Division of Banks, may not be altered or abridged in any manner. The mortgage lender is encouraged to include its response to the evaluation in its MLCI public file.

The Division of Banks will publish the mortgage lender's Public Disclosure on its website no sooner than 30 days after the issuance of the Public Disclosure.